Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Message Text

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PAGE 01 ROME 07992 01 OF 02 171022Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01
INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02
EPG-02 OMB-01 PA-02 PRS-01 /066 W
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TREASURY DEPT WASHDC
INFO USMISSION EC BRUSSELS
AMCONSUL FLORENCE
AMCONSUL GENOA
AMCONSUL MILAN
AMCONSUL NAPLES
AMCONSUL PALERMO
USMISSION OECD PARIS
AMCONSUL TURIN
AMCONSUL TRIESTE

UNCLAS SECTION 1 OF 2 ROME 7992

PASS FRB

E.O. 11652: N/A
TAGS: EFIN IT
SUBJ: FINANCE MINISTER PANDOLFI DENIES NEED FOR TAX INCREASES
TALKS ABOUT NEW TAX REOFRMS/ RESULTS OF 1971 TAX REFORM ANA-
LYZES

1. SUMMARY: FINANCE MINISTER PANDOLFI REPEATED HIS PREVIOUS
CONTENTION THAT NEW REVENUES NEED NOT BE GENERATED BY FURTHER
TAX INCREASES THIS YEAR. AT LEAST HALF OF 2,000 BILLION LIRE
REVENUE-EXPENDITURE PACKAGE NEEDED TO MEET IMF PUBLIC DEFICIT AND
FISCALIZATION COMMITMENTS WOULD BE ACCOUNTED FOR BY GREATER
REVENUES THAN FORECAST. DIFFERENCE SHOULD BE MADE UP BY REDUCTION
IN PUBLIC SPENDING. HE SUGGESTED INCOME TAX RATE CURVE MIGHT BE
UNCLASSIFIED

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PAGE 02 ROME 07992 01 OF 02 171022Z

ADJUSTED IN 1978, THAT THE PROBLEM OF JOINT TAX RETURNS MIGHT
BE SOLVED ON THE GERMAN MODEL OF "SPLITTING ", REJECTED THE
NOTION THAT A "WEALTH TAX "WAS UNDER STUDY, BUT
CONFIRMED THAT A NEW SYSTEM OF PROPERTY TAX WAS UNDER STUDY WHICH
WOULD SERVE TO RETURN SOME TAXING AUTHORITY TO LOCAL GOVERNMENTS.
EH ALSO ILLUSTRATED FOR THE BENEFIT OF HIS QUESTIONERS AN ANA-
LYSIS OF 1975 TAX RETURNS WHICH SHOW A MUCH HIGHER DEGREE OF

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

TAX COMPLIANCE THAN NORMALLY CREDITED TO ITALIANS. END SUMMARY/:

2. /COVERING BY 2,000 BILLION LIRE./ IN A PRESS CONFERENCE HELD AT THE MINISTRY OF FINANCE MAY 11 TO ILLUSTRATE THE NEW INI-TIATIVES TAKEN BY HIS ADMINISTRATION, MINISTER PANDOLFI WAS QUESTIONED CLOSELY ON THE PROSEPCS FOR NEW TAXES (OR EXPENDITURE CUTS) TO COVER THE EXPECTED EXCESS OF 2,000 BILLION LIRE OF NET EXPENDITURES WHICH HEOPARDIZE COMPLIANCE WITH PUBLIC DEFICIT TARGET AGREED UPON WITH THE IMF. (ABOUT 1,000 BILLION LIRE OF EXCESS IS DUE TO UNCOVERED EXPENDITURES FOR FISCALIZATION OF HEALTH COSTS IN LATTER PART OF 1977.) PANDOLFI REITERATED HIS PREVIOUSLY STATED BELIEF THAT NEW TAEXS WERE UNNECESSARY DURING THE CURRENT YEAR. HE POINTED OUT THAT TAX REVENUES WERE NOW EXPECTED TO EXCEED PREVIOUS FORECAST (OVER 39,000 BILLION LIRE VICE 37,987 BILLION LIRE) BUT A DEPENDABLE REVISED FORECAST WOULD ONLY BE POSSIBLE AFTER JULY 1 WHEN RETURNS HAVE BEEN FILED. WHILE THIS WOULD PROVIDE AN ADDITIONAL 1,000 BILLION LIRE IN REVENUES, THE REMAINING 1,000 BILLION LIRE SHOULD BE OBTAINED THROUGH CUTS IN GOVERNMT SPENDING AND REDUCTION OF WASTE.

3./ NEW TAXES IN THE FUTURE/. WHILE ATTEMPTING TO LAY TO REST FEARS THAT -DIRECT TAXES WILL BE RAISED IN 1977, PANDOLFI DID NOT DISMISS THE POSSIBILITY THAT 1978 COULD SEE SOME ADJUSTMENT IN THE TAX RATE CURVE ON PERSONAL INCOME TAXES. HE SPECIFIED HOWEVER THAT SUCH AN ADJUSTMENT WOULD NOT COMPREHEND A NET RATE REDUCTION.HE ELABORATED FURTHER THAT HE EXPECTED TO SEE WITHIN THREE YEARS A JOINT TAX RETURN ANALAGOUS TO THE MORE EQUITABLE GERMNA SYSTEM OF "SPLITTING ". THIS SYSTEM ESSENTIALLY PROVIDES
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THAT FAMILY EARNINGS WOULD BE COMBINED, AND APPROPRIATE DEDUCTIIONS APPLIED TO THE COMBINED INCOME. THE ADJUSTED INCOME WOULD THEN BE DIVIDED EQUALLY AND THE APPLICABLE TAX RATE APPLIED TO EACH INCOME. TAX SO DETERMINED IS THEN COMBINED AND BECOMES TAX DUE ON JOINT RETURN. PANDOLFI ALSO AFFIRMED THAT NO PROJECT FOR TAXING "WEALTH" WAS UNDER STUDY BUT THAT A NEW SYSTEM FOR TAXING PROPERTY INCOME WAS UNDER CONSIDERATION. THIS WOULD SERVE TO GIVE BACK A CERTAIN AMOUNT OF TAX AUTONOMY TO LOCAL GOVERNMENTS. HE STATED, HOWEVER, THAT SUCH A SYSTEM COULD NOT BE PUT INTO EFFECT BEFORE 1979. THUS IT WAS NECESSARY TO MOVEIN THE DIRECTION OF IMPROVING THE CURRENT SYSTEM BASED ON IMPUTED RENTAL INCOME.

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Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

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PAGE 01 ROME 07992 02 OF 02 171026Z
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EPG-02 OMB-01 PA-02 PRS-01 /066 W
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FM AMEMBASSY ROME
TO SECSTATE WASHDC 4649
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UNCLAS SECTION 2 OF 2 ROME 7992

4/. FIRST ANALYSIS OF 1971 TAX REFOR. /A COMPREHENSIVE ANALYSIS OF 1975 TAX RETURNS REPORTING 1974 INCOME HAS JUST BEEN COMPLETED BY THE MINISTRY OF FINANCE AND PRESENTED BY MINISTER PANDOLFI TO THE APPROPRIATE PARLIAMENTARY COMMITTEE. MINISTER PANDOLFI ILLUSTRATED TO THE PRESS SOME OF THE MORE INTERESTING FINDINGS OF THE ANALYSIS, WHICH IS A FIRST OF ITS KIND IN ITALIAN TAXING HISTORY. THE SUCCESS OF THE 1971 BASIS TAX REFORM LAW (WHICH FOR NEW INCOME TAXES BECAME EFFECTIVE WITH 1974 EARNINGS), IS GRAPHICALLY ILLUSTRATED BY THE INCREASE FROM 4.5 MILLION TAXPAYERS FILING RETURNS IN 1974 TO NEARLY 23 MILLION WHO FILED RETURNS IN 1975 . DIRECT TAX REVENUES THUS INCREASED FROM 1,667 BILLION ON INCOME EARNED IN 1973 TO 4,880 BILLION AGAINST EARNED INCOME IN 1974.

5/. COMMENT/. MINISTER PANDOLFI CONTINUES TO IMPRESS HIS
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PAGE 02 ROME 07992 02 OF 02 171026Z

OBSERVERS AS A HARD WORKING, DEDICATED MINISTER WHO UNHESITA-TINGLY CINTINUES TO BUILD ON THE REOFRMS INITIATED IN HIS MINISTRY BY HIS PREDECESSOR , BRUNO VISENTINI. ONE OF THESE NEW REFORMS WOULD INCLUDE A WIDE RANGING REORGANIZATION OF THE MINISTRY OF FINANCE, AND A PARLIAMENTARY COMMISSIONWAS ASKED TO PRIVDE ITS RECOMMENDATIONS BY NOVEMBER

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

1. THE NALYSIS OF TAX RETURNS ON 1974 INCOME UNDER
THE TAX REFORM LAWS WILL PROVIDE A NBENCHMARK AGAINST WHICH PROGRESS
AGAINST TAX EVADERS CAN BE MEASURED IN THE FUTURE AND CONSTI-
TUTES ANOTHER SIGNIFICANT FORWARD STEP IN MODERNIZING THE ITALIAN
TAX SYSTEM. AT THE SAME TIME, PANDOLFI HAS NOT HESITATED
ON MORE THAN ONE OCCASION TO EXPRESS VIEWS ON THE QUESTION
OF ADDITIONAL TAX MEASURES IN 1977 WHICH CONFLICT WITH THOSE
OF HIS COLLEAGUES IN THE CABINET (E.G., ROME 7602).GARDNER

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Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Message Attributes

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TAGS: EFIN, IT, (PANDOLFI, FILIPPO)
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Type: TE
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